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SUBJECT: Third Annual Embassy IPR Roundtable Highlights Progress in
Russian Software Industry

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11. (SBU) Summary: The Charge on May 23 hosted a roundtable for
over 90 participants to discuss IPR protection and innovation in the
Russian software industry. Participants indicated that the software
piracy situation in Russia has dramatically improved thanks to a
combination of government and industry initiatives. However, there
was also a consensus that there was room for further improvement,
including especially in fighting Internet piracy, reducing official
corruption, and better coordinating law enforcement efforts. End
Summary

Participants

12. (U) This is the third year that the Chief of Mission has hosted
an IPR roundtable. The previous years' discussions focused on
Russia's movie and music industries respectively. The International
Chamber of Commerce and the Ministry of Economic Development again
co-hosted the event. Roundtable participants included prominent
Russian software company executives, representatives of American
software companies such as Microsoft and Adobe, as well as officials
from the Ministry of Culture, Duma, MVD, General Procuracy,
Rossvyaznadzor (formerly Rossvyazokhrankultura), Moscow city police,
and Moscow city government. Russian media outlet RBC provided
exclusive coverage of the event, with stories distributed through
its wire service, online, and on TV.

Russia Making Progress on Piracy

13. (SBU) Industry representatives noted that the software piracy
rate in Russia has gone down significantly in the last four years.
The Business Software Alliance (BSA) representative said that their
latest statistics, released just a week before the roundtable,
showed that it dropped 7 points in 2007 from 80% to 73%. This
reduction is especially significant compared to the annual 3%
reduction of the past few years. Microsoft Vice President Vahe
Torossian put the numbers in perspective - every percentage
reduction in piracy rate represents \$150 million in legitimate sales
and wages paid to employees. Calculating from the 90% piracy rate
of 2004, the progress made in combating software piracy in Russia
has meant a total of \$2.55 billion in recovered revenue and salary
for the industry in the last four years.

14. (SBU) Industry representatives and Russian government officials

were unanimous in noting that the software IPR situation is much better than that of the music and film industries. The roundtable participants attribute the improved IPR situation for software to a combination of government and private sector initiatives. Boris Nuraliyev, the founder of the software company 1C and nicknamed "the Bill Gates of Russia," noted that increasing cooperation between rights holders and law enforcement agencies has resulted in stepped-up action against pirates. Nuraliyev also credited better organization within the industry, particularly through the Nonprofit Partnership of Software Suppliers (NP PPP), which unites 300 Russian and foreign companies, and more public outreach to educate consumers for the improved IPR protection.

15. (SBU) Yevgeniy Bakhin, Marketing Director of Russian software company Askon, while acknowledging Russian law enforcement efforts in combating piracy, noted that the IPR focus in Russia is overwhelmingly on punishment and argued that more positive incentives are needed to reward the use of legitimate products. He highlighted his company's marketing campaigns that demonstrate to consumers the economic benefits of using legitimate software - quality assurance, access to company's support services, and clear pricing. According to Bakhin, a particularly useful step his company has taken is providing schools with free software, so that young students get used to legal versions of the company's products and therefore have more inclination to continue to use legitimate software and the company's services as they grow into consumers.

16. (SBU) The Russian participants expressed disappointment that the IPR reputation of the country has not improved along with the progress that they are seeing on the ground. Nuraliyev and General Director of software company ABBYY Grigoriy Lipich noted that their companies have more piracy problems in other CIS countries than in Russia, but IPR issues appear to continue to impede Russian WTO

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membership while other CIS members (e.g. Ukraine) have been allowed to join. MED Advisor to the Minister Yuriy Lyubimov said that the GOR was surprised that Russia remained on the Priority Watch List during the 2008 Special 301 review despite the progress made, but pledged to continue to make improvements in Russia's IPR record.

Remaining Challenges

17. (SBU) Roundtable participants identified Internet piracy, official corruption, and better law enforcement coordination as challenges that require further attention. While limited broadband access in Russia has not made online software piracy a significant issue, most saw it as the inevitable next battleground for IPR protection, as in the music and movie industries. Already, many websites registered both in Russia and abroad are doing brisk business selling pirated Russian software (but mostly offering delivery by mail rather than direct download).

18. (SBU) Industry representatives appealed for better inter- and intra-governmental cooperation to counter this transnational problem. BSA representatives offered some concrete suggestions for combating official corruption among law enforcement ranks and improving the effectiveness of enforcement actions. They included more authority to conduct raids by Department K, the computer crimes division of MVD; better forensics methodology; and improved coordination between the MVD and the General Procuracy Investigative Committee.

Comment

19. (SBU) While many Russian officials still see IPR as a "Western" issue, events such as our roundtables that emphasize Russian rights holders' concerns are changing that mindset. Three years ago, we had to practically wrestle the two sides into sitting down at the same table. Now, officials and industry representatives meet often and are comfortable dealing with each other, even if they still have differences of opinion. As we continue to press the GOR to fulfill its IPR obligations under both WTO rules and the bilateral IPR Side

Letter, the recognition that better IPR enforcement brings benefits to Russia's own creative and innovative industries that should lead to lasting change.

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